

Message Text

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ACTION ARA-10

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 0680

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS BRASILIA 6365

E.O. 11652: N/A

TAGS: EMIN BR

SUBJECT: CARAJAS IRON ORE PROJECT: PRESS PLAY

REF: BRASILIA 6158

1.SUMMARY: SEVERAL PRESS ARTICLES HAVE APPERED SINCE THE JULY 23 MEETING BETWEEN MINISTER OF MINES AND ENERGY UEKI AND US STEEL REPRESENTATIVES SEEKING TO RESOLVE THE DIFFICULTIES SURROUNDING THE CARAJAS IRON ORE PROJECT. MOST OF THESE ARTICLES SEEM TO BE BASED ON THE SAME OFFICIAL BRIEFING, AS THEY ALL TAKE A SIMILAR LINE: THE JULY 23 MEETING APPARENTLY RESOLVED ALL OUT-
STANDING PROBLEMS, AND THE PROJECT SHOULD BE OFF AND RUNNING SOON. PRESS REPORTS ARE IN LINE WITH DETAILS PROVIDED REFTEL. END SUMMARY

2. UNDER ARTICLE ENTITLED "CARAJAS OBSTACLES OVERCOME", THE JULY 24 ISSUE OF O ESTADO DE SAO PAULO REPORTED MINISTER UEKI AS SAYING THAT ALL OBSTACLES TO THE BEGINNING OF ESPLOITATION FOR IRON ORE IN UNCLASSIFIED

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THE SERRA DOS CARAJAS HAD BEEN PRACTICALLY OVERCOME. UEKI QUOTED AS

SAYING THAT RAILWAY LINE TO BE BUILT BY AMAZONIA MINERACAO (AMZA--JOINT US STEEL-CVRD COMPANY) NOW ONLY NEEDS AUTHORIZATION FROM MINISTRY OF TRANSPORTATION TO BEGIN CONSTRUCTION. UEKI REPORTEDLY REAFFIRMED THAT US STEEL AND CVRD PARTICIPATION IN AMZA WILL REMAIN AT SAME LEVELS AS BEFORE, WITH US STEEL HOLDING 49 PERCENT AND CVRD 51 PERCENT. HOWEVER, CVRD WILL CONTROL-- WITH US STEEL PARTICIPATION--THE ADMINISTRATIVE AS WELL AS TECHNICAL SECTIONS OF AMZA WITH US STEEL CONTROLLING THE COMMERCIAL AND FINANCIAL ASPECTS OF AMZA OPERATIONS.

3. JORNAL DO BRASIL ARTICLE, SAME DATE, ENTITLED "NO PROBLEMS WITH CARAJAS PROJECT" REPORTED UEKI SAID THERE WAS NO IMPASSE TOWARD THE REALIZATION OF THE PROJECT AND THAT THE PLANNING WAS IN THE FINAL STAGES.

4. GAZETA MERCANTIL OF JULY 24 REPORTED UEKI AS SAYING THAT THE MOOD OF BOTH PARTIES WAS ONE OF "ENTHUSIASM" TO OVERCOME THE OBSTACLES NATURAL TO UNDERTAKINGS OF THIS TYPE." ACCORDING TO GAZETA, UEKI SAID THAT THE FIRST LOAD OF IRON ORE COULD BE ARRIVING AT PORT OF ITAQUI FOUR YEARS AFTER ACTUAL COMMENCEMENT OF OPERATIONS, BUT THAT ONE YEAR OF DELAY COULD RAISE PROJECT COSTS BY \$270 MILLIONS. HE NOTED THAT AT JULY 23 MEETING GOB REPRESENTATIVES CLARIFIED THEIR POSITION WITH RESPECT TO THE INCENTIVES TO BE PROVIDED TO THIS PROJECT. UEKI ADDED THAT 800 LABORERS ARE CURRENTLY INVOLVED IN THE LAST STAGES OF TECHNICAL PREPARATIONS AT A DAILY COST OF 60,000 DOLLARS, AND THAT BY THE END OF THIS YEAR A TOTAL OF 80-90 MILLION DOLLARS WILL HAVE BEEN SPENT ON THE PROJECTS PREPARATORY STAGES, THE MINISTER EMPHASIZED HIS CONCERN THAT THE BASIC OPERATIONS OF THE PROJECT BE INITIATED AS SOON AS POSSIBLE. UEKI HESITATED TO CITE A DATE FOR THE ACTUAL BEGINNING OF OPERATIONS, BUT SAID THAT "IF WE BEGIN IN 1976, WE WILL BE LOADING IRON ORE FROM CARAJAS IN 1979." FINALLY UEKI LISTED THE REASONS WHY HE BELIEVES IRON ORE IMPORTERS ENTHUSIASTIC ABOUT THE CARAJAS PROJECT: 1) THE GOOD QUALITY OF CARAJA'S ORE, 2) EXCELLENT GEOGRAPHICAL LOCATION, AND 3) THE POLITICAL STABILITY OF BRAZIL.

5. GAZETA MERCANTIL ISSUE OF JULY 26-28 PROVIDED MORE DETAILS ON PROJECT'S FINANCING, PRODUCTION, AND SUPERVISION. UNDER ARTICLE ENTITLED "VALE (CVRD) ASSUMES CONTROL OF CARAJA'S, GAZETA STATED UNCLASSIFIED

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THAT AMZA WILL HAVE TO TURN TO OUTSIDE SOURCES TO PROCURE 70 PERCENT OF 2.7 BILLION DOLLARS OF FINANCING NEEDED TO IMPLEMENT PROJECT

CVRD OFFICIALS PREDICT, HOWEVER, THAT FUTURE SALES OF CARAJAS IRON ORE WILL COVER THESE LOANS. AMZA REPORTEDLY WILL BE PRODUCING 12 MILLION TONS OF IRON ORE BY 1980 AND FIVE YEARS LATER WILL HAVE REACHED THE 50 MILLION TON PER YEAR MARK. ALTHOUGH US STEEL WAS ORIGINALLY SCHEDULED TO PURCHASE HALF OF THE CARAJA'S OUTPUT,

IT HAS NOW REDUCED ITS COMMITMENT TO 8-10 MILLION TONS ANNUALLY
DUE TO THE RECENT EXPANSION OF THE PROJECT TO INCLUDE BRITISH,
SPANISH, AND SEVERAL JAPANESE FIRMS WHO WILL BUY 25 MILLION
TONS ANNUALLY. US STEEL'S PARTICIPATION IN THE MANAGEMENT
OF THE PROJECT HAS ALSO DECREASED CONSIDERABLY. CONTRARY TO INFOR-
MATION CITED PARAGRAPH TWO, GAZETA REPORTS THAT CVRD WILL CONTROL
AMZA EXECUTIVE AND OPERATIONAL SECTIONS, LEAVING ONLY ADMINIS-
TRATIVE SECTION TO US STEEL. THESE MODIFICATIONS WILL GO INTO
EFFECT WHEN AMZA STATUTES ARE REVISED TO PERMIT THE PARTICIPATION
OF THE NEW PARTNERS.
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